Review of SFC's operation

498. SHRI C. RAMACHANDRAIAH: Will the Minister of FINANCE be pleased to state:

(a) whether a review of the State Finance Commission's operations for 2000-2005 and the need for restructuring thereof was undertaken by the Gupta Commission;

(b) if so, the details of the recommendations made by the Commission for rejuvenating the SFCs and improving their performance;

(c) what decision has since been taken thereon indicating the steps recommended for improving the performance of SFCs;

(d) whether Government of Andhra Pradesh has made request for restricting the Andhra State Finance Commission;

(e) if so, the details thereof; and

(f) Government's response thereto?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) and (b) The G.P. Gupta Committee was set up for review and restructuring of State Finance Corporations (SFCs). The Committee has made recommendations for operational, financial and organizational restructuring of SFCs. The Committee has, *inter-alia*, recommended recapitalisation, amounting to Rs. 3,600 crore which can be shared by Central Government, Reserve Bank of India (RBI), Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), and State Gvoernments to be linked to reforms on the operations of SFCs. The details of other recommendations are given in the enclosed Statement (See below).

(c) The report has been sent to various SFCs for taking immediate action on recommendations relating to operational and organizational restructuring to improve performance of SFCs. Recognizing the role of SFCs in ensuring adequate flow of credit to SSI Sector, Government and SIDBI have formulated a package for revitalization and restructuring consisting of reliefs and concessions to SFCs. The concessions are: (a) reduction in rate of interest by 2% on all outstanding as well as future finance, (b) moratorium of one year for repayment of existing dues. As per conditions of the package, Memorandum of Undertaking (MoU) is to be signed by SFCs. So far, 9 SFCs, including Andhra Pradesh SFC, have entered into MoU with SIDBI.

(d) to (f) In February, 2003 Andhra Pradesh SFC approached the Government with the request for its restructuring. The request was basically for release of funds. The Government and RBI are not in a position to provide any further funds, as Government and RBI do not hold equity in SFCs.

Statement

The Committee has also made recommendations on several matters such as:

- SFCs should continue playing the role of credit/services provider to SSI sector
- SFCs needs to provide diversified products/services to ward off any untoward and adverse impact of a particular activity on the health of the SFCs.
- The maximum limit on accommodation per unit might be removed and the Boards of SFCs be authorised to fix exposure limits per unit, industry-wise, based on the prevailing and emerging industrial climate in the State.
- SIDBI, as at present, should continue to fill up the credit gaps and play supplementary and complementary role *vis-à-vis* SFCs.
- SFCs should take up more non-fund based activities.
- SFCs should completely re-design their business processes and enhance the corporate culture with pro-active client relationship approach.
- Installation of more efficient and effective risk assessment mechanism as well as close monitoring of loan portfolios.
- To ensure continuity at MD's level, the power to appoint the MD may continue to vest in and be exercised by the State Government. It should however, be invariably ensured that the services of MD-designate, be made on contract basis for a minimum fixed period of three eyars without any recourse to recall.
- To effectively guide the SFCs, the nominees of SIDBI, FIs and banks be drawn from a pool of appropriately senior executives, preferably not below the rank of General Manager.
- SFCs to take a realistic assessment of their branch network treating each of them as "Profit Centre", besides looking at the

objective of providing the service with better geographical spread. Unviable branches must be closed without delay.

- Information/data to be computerized on an on-going basis.
- SIDBI should take steps to strengthen its internal monitoring and administrative mechanism with regard to SFCs.
- To overcome the delays in recoveries, the State Government may set up special courts for disposal of applications made under Section 32 of the SFCs Act, which might exclusively deal with recovery applications filed by SFCs.
- SIDBI should come out with OTS guidelines for SFCs, on the lines of guidelines issued by RBI on July 27, 2000 to commercial banks, which would provide a simplified non-discretionary and non-discriminatory mechanism for recovery of their NPAs. SFCs should then not fight shy in implementing OTS vigorously.
- Each SFC should fix certain sectoral exposure limits. SFCs shouuld ensure that these do not exceed 5% of the fresh sanctions.
- Owing to special circumstances in which SFCs operate, guideilines for income recognition, provisioning and asset classification need to be different from those applicable to commercial banks.
- To improve poor cash management, SFCs need to invest cash balances profitably in short-term investments.
- For effective resource management, Asset Liability Management Committee (ALCO) to be formed in each SFCs to ensure that SFCs in future do not borrow short and lend long and thereby avoid asset liability mismatches.
- SFCs might be advised to immediately adopt uniform accounting standards.

Review of India development initiative

499. SHRI RAMA MUNI REDDY SIRIGIREDDY: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that Government have reviewed or are reviewing the India Development Initiative;